STATE OF CALIFORNIA
ELECTRICITY OVERSIGHT BOARD

Gray Davis, Governor

June 17, 2002

Hon. Magalie Roman Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

VIA EMAIL

Re: Standardization of Generator Interconnection Agreements and Procedures, NOPR, Docket No. RM02-01

Dear Ms. Salas:

Please file the attached electronic version of the Comments of the California Electricity Oversight Board.

Thank you for your assistance.

Sincerely,

Sidney L. Mannheim

Sidney L. Mannheim
Senior Staff Counsel
Electricity Oversight Board

Enclosure

cc: Official Service List of RM02-01

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Standardization of Generator Interconnection Agreements and Procedures, Notice of Proposed Rulemaking	Docket No. RM02-1-000

INITIAL COMMENTS OF THE CALIFORNIA ELECTRICITY OVERSIGHT BOARD

The California Electricity Oversight Board (CEOB) files these comments pursuant the Commission's April 24, 2002 Notice of Proposed Rulemaking (NOPR) regarding the Standardization of Generator Interconnection Agreements and Procedures. As it stated in its comments on the Advanced Notice of Proposed Rulemaking in this docket:

> The CEOB is keenly aware of the importance of interconnection policy in the creation of proper incentives for timely and economic interconnection of new facilities . . . . In particular, the CEOB recognizes that cost allocation will be the most significant aspect to this rulemaking. [Comments of the California Electricity Oversight Board (February 1, 2002).]

In its NOPR, the Commission recognizes that pricing policy, which the Commission had originally intended to defer to a subsequent phase of rulemaking, cannot be divorced from the underlying interconnection terms and conditions. Accordingly, the Commission has determined to address pricing issues at this time. The CEOB's comments are devoted

exclusively to the cost allocation policies that should apply to new generation interconnections.

I. SUMMARY OF THE CEOB'S RECOMMENDED INTERCONNECTION PRICING POLICY

The CEOB has been involved in the long, and often contentions, development of the new generation interconnection policy of the California Independent System Operator (CAISO). Throughout the debate, the CEOB has advocated that new generators' cost responsibility for new generators be limited to facilities necessary to interconnect the new generator and any necessary reliability upgrades to the network that are not otherwise included in the CAISO's long term gird plan. The CEOB's interconnection pricing policy is, in large part, reflected in the CAISO's Amendment No. 39.[1] The CEOB's policy will create appropriate price signals for the location of new generation and will treat new generation comparably with existing generation. The CEOB's recommended pricing policy includes the following elements:

- New generators should bear cost responsibility for "interconnection facilities" and other "direct assignment facilities."

- New generators should generally bear cost responsibility for any needed network upgrades to ensure system reliability, including network upgrades necessary to remedy short circuit or stability problems resulting from the interconnection, if the upgrades are not included as part of an independent

[1] The CAISO filed Amendment No. 39 on April 2, 2001. On June 4, 2002, the Commission finally accepted Amendment No. 39, suspended the filing for a nominal period, and made the filing subject to refund. "Order Accepting and Suspending, Subject to Refund and to Further Commission Action, Generator Interconnection Procedures," 99 FERC ¶ 61,275 (2002).

system operator's (ISO's) or regional transmission organization's (RTO's) long term grid plan.

- In a refinement to the forgoing, if more than one new generator would benefit from a network upgrade needed for reliability, then the costs of the upgrade should be apportioned among the new generators that would benefit from the upgrade and not wholly assigned to the new generator that is first in the queue. Alternatively, if there are multiple prospective new generators, and cost apportionment would be difficult, it may be appropriate to include the cost of such reliability upgrades in transmission rates as if the upgrades had been included in the ISO's or RTO's long term grid plan.

- New generators should bear no cost responsibility to mitigate any incremental congestion caused by the new interconnection or pay for any delivery upgrades with one exception. If a new generator interconnection would adversely affect an existing path rating, the new generator would be required to mitigate the adverse impact to ensure that existing transmission capacity is not reduced. In other words, while a new generator would have no obligation to increase available transmission capacity, it would have to ensure that its interconnection would not result in any reduction of transmission capacity. On the other hand, if new generator interconnection increases a path rating, the new generator should receive

firm transmission rights equivalent to any increase in capacity created by the interconnection.

- New generators should have the option of paying for network upgrades that would reduce congestion or enhance deliverability as long as any adverse impacts on existing transmission capacity is mitigated. Any generator (new or existing) paying for a network upgrade should receive firm transmission rights equivalent to any increase in capacity created by the upgrade. Alternatively, if an upgrade is included in the RTO's or ISO's long term transmission plan, and if the new generator desired expedited construction of the upgrade, the new generator could advance the funds for the project and receive future credits in the reduction of transmission charges (in a system where generators bear transmission access charges) or reimbursement from the transmission owner, in systems such as the CAISO's where load pays the transmission access charge, once the transmission owner begins to recover the costs of the upgrade in its revenue requirement. In the latter case, the new generator would not be awarded FTRs but could purchase them.

II. THE CEOB'S INTERCONNECTION PRICING POLICY IS GENERALLY CONSISTENT WITH THE COMMISSION'S EXISITING PRICING POLICIES INSOFAR AS THEY ARE APPLICABLE

The Commission's pricing policy requires facilities that can be directly assigned to a particular user to be paid for by that user. The NOPR states that interconnection facilities are considered direct assignment facilities rather than network facilities. In this respect, the CEOB's recommended interconnection policy is consistent with the Commission's insofar as the new generator bears cost responsibility for interconnection facilities.

Under existing Commission policy, network facilities cannot be directly assigned under the premise that the transmission grid is a "single piece of equipment to be priced on an average or incremental investment cost basis, but not by way of direct assignment." NOPR at 20. The CEOB agrees that the transmission system is a single piece of equipment and, therefore, that no part of it can be directly assigned as being for the sole use of any particular user. Although the CEOB believes that new generators should bear cost responsibility for certain reliability upgrades under certain circumstances, the CEOB agrees that these facilities cannot be directly assigned. In addition, except for reliability upgrades that would not be needed but for the new interconnection, the CEOB's pricing policy requires the costs of network upgrades be included in transmission access charges and not paid for by new generators unless voluntarily assumed. Again, the CEOB's

recommended pricing policy appears to be consistent with the Commission's except, perhaps, for needed reliability upgrades.[2]

There are apparent differences due to the assumed structure of transmission rates. In California, the transmission charge that covers the cost of network facilities is paid for by load. Therefore, new and existing generators pay only transmission congestion charges, if any (in addition to interconnection costs). The NOPR and the Commission's pricing policies, on the other hand, assume that generators pay transmission charges and that new generators would be responsible for paying transmission access charges based on either the average rolled-in cost of the transmission system or the incremental costs of any network upgrades undertaken that would allow the new generator to serve load. As a result of this difference, the Commission's proposed interconnection agreement (IA) defines two distinct interconnection services as well as different delivery services. A new generator can opt for a fairly basic reliability interconnection service called "Energy Resource Interconnection Service" which would allow a generator to use the transmission system on an as available basis. Alternately, a new generator could opt for "Network Interconnection Service," which would require the new generator to pay for network upgrades in addition to interconnection facilities and reliability upgrades required for basic "Energy Resource Interconnection Service." A new generator opting for "Network Interconnection Service" would receive a higher level of transmission delivery service.

These interconnection services and transmission delivery services distinctions are not needed in an ISO or RTO like the CAISO, which has a load based transmission

[2] Since the Commission allows "either or" transmission pricing, new generators can be assigned the costs of reliability upgrades and delivery upgrades or pay rolled in transmission rates that include the costs of the upgrades in the revenue requirement. Thus, to the extent there is a distinction it appears to be a distinction without a diffrence.

access charges. Nor should the Commission's desire for standardized interconnection procedures and policies dictate transmission rate design for ISOs and RTOs. The goal of interconnection pricing policy is to ensure efficient siting of new generation and comparable treatment of new and existing resources. The CEOB's recommended interconnection pricing policy achieves the proper policy goals.

First, under the CEOB's recommended interconnection policy, there is only one interconnection service analogous to "Energy Resource Interconnection Service" as described in the IA. New generators will pay for interconnection and direct assignment facilities and then have the same right to access the transmission grid as an existing generator. New generators will face locational price signals based on whether the proposed interconnection would adversely or positively affect transmission capacity. If the new generator chooses to interconnect in an area that would reduce available transmission capacity, the generator would be responsible for paying for upgrades to ensure no loss of capacity. If a generator chooses to interconnect in an area that benefits available capacity, then the new generator will be rewarded with equivalent FTRs. If the new generator interconnects in an area that neither increases nor decreases available capacity, the new generator will bear no cost responsibility for network upgrades (and receive no FTRs) even if there is an increase in congestion following the interconnection.

Second, as discussed above, the CEOB's recommended pricing policy assumes that generators do not pay for transmission delivery services and, therefore, there are not distinct levels of delivery services. All generators (new and existing) would have equal nondiscriminatory access to the transmission system, but would be subject to congestion charges if the physical capacity of the grid were insufficient to accommodate scheduled

demand. All generators would have the same right to purchase FTRs, assuming they were available, or to pay for network upgrades in exchange for FTRs. In this way, generators will be able to achieve, in effect, different levels of deliverability and/or price stability that are practically equivalent to those available under the IA's delivery services and interconnection options.

III. CAISO'S AMENDMENT NO. 39 GENERALLY REFLECTS THE CEOB'S INTERCONNECTION PRICING POLICY AND IS CONSISTENT WITH THE COMMISSION'S PRICING POLICIES INSOFAR AS THEY ARE APPLICABLE

Section 5.7.5 of the CAISO's tariff specifies the cost responsibility of a new generator. In addition to paying for interconnection studies, the new generator is responsible for the actual costs of all Direct Assignment Facilities and Reliability Upgrades. As defined by the CAISO tariff, Direct Assignment Facilities consist of "transmission facilities necessary to physically and electrically interconnect" a new generator "at the point of inter connection." Reliability Upgrades is defined by the CAISO tariff to include

> transmission facilities, other than Direct Assignment Facilities, beyond the first point of Interconnection necessary to interconnect a New Facility safely and reliably to the ISO Controlled Grid, which would not have been necessary but for the interconnection of a New Facility, including network upgrades necessary to remedy short circuit or stability problems resulting from interconnection of a . . . [new generator] to the ISO controlled grid. Reliability Upgrades also include, consistent with WSCC [now WECC] practice, the facilities necessary to mitigate any adverse impact a . . . . [new generator's] interconnection may have on a path's WSCC [now WECC] path rating.

As discussed in the CAISO's transmittal letter accompanying Amendment No. 39, a new generator is not obligated to pay for transmission facilities other than those necessary to maintain the reliability of the grid and is not obligated to mitigate any new congestion that might occur as a result of the interconnection.[3] In other words, under the CAISO's tariff, the new generator is not responsible for paying for Delivery Upgrades, which the CAISO's tariff defines to include "the costs of facilities necessary to deliver energy from the point of interconnection of the new facility to load and would include such costs as the cost of upgrading a line to eliminate congestion. The ISO believes that such upgrades are appropriately addressed pursuant to the procedures set forth in Section 3.2 of the ISO Tariff, Transmission Expansion." CAISO submittal letter dated April 2, 2001.

Pursuant to Amendment No. 39, once interconnected, the new generator would have the same right to access the CAISO controlled grid as existing generators. Since load pays transmission charges, generators (new and existing) pay only transmission congestion charges if existing transmission capacity is insufficient to accommodate all scheduled transactions. New generators would have the same right to purchase firm transmission rights, if available, as existing generators.

Although the CAISO's April 2, 2001 transmittal letter expressly states that new generators should have the option of paying for upgrades in exchange for FTRs, Amendment No. 39 does not include tariff language for new generator funded transmission upgrades. Instead, the CAISO indicates that new generator funded transmission upgrades will be dealt with in the context of the CAISO's long term grid

[3] The one exception is if the interconnection would actually reduce the path rating, in which case the new generator would have to mitigate that impact to ensure there is no overall reduction in transmission capacity.

planning and tariff amendments associated therewith. Thus, additional work in this area remains.[4]

Finally, there is one respect in which the CAISO's Amendment No. 39 filing is inconsistent with the CEOB's recommended interconnection pricing policy. According to its April 2, 2001 transmittal letter, although the CAISO recognizes that the costs of reliability upgrades needed for new generator at the head of the queue that might benefit other applicants should be allocated equitably to those later in the queue, the CAISO proposes to impose all such costs on the new generator that is first in line. The CAISO's stated reason rests on the complexity and burdensome nature of making such an allocation. The CEOB believes that additional effort should be made to develop cost allocation principles for such circumstances. In the event of undue complexity involving numerous potential beneficiaries, it may be more appropriate to include the costs of reliability upgrade in transmission access charges rather than assign one hundred percent of the cost to the new generator first in line.

[4] A proposed upgrade may or may not be consistent with long term transmission planning and, thus, may not always be accommodated.

IV. CONCLUSION

The Commission's proposed Standard Generator Interconnection Procedures and proposed Standard Generation Interconnection and Operating Agreement can be tailored to accommodate systems, such as the CAISO, with load based transmission access charges and a single interconnection service. The Energy Resource Interconnection Service, as opposed to the Network Resource Interconnection Service, can be modified to provide the single interconnection service that would be available in CAISO control area.

Dated: June 17, 2002

Respectfully submitted,

Sidney L. Mannheim

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CERTIFICATE OF SERVICE

I hereby certify that I have caused the foregoing document to be served upon each person designated on the official service list compiled by the Secretary for this proceeding on June 17, 2002, pursuant to Rule 2010(a) of the Commission's Rules of Practice and Procedure.

Dated at Sacramento, California, this 17th day of June 2002.

/s/

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